

# How to Do Business with the European Bank for Reconstruction and Development

A Primer for U.S. Businesses

Learn the Procurement Process Identify Opportunities Access Financing



Advocacy Center

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### Background

In 1991, after the fall of the Berlin Wall, the European Bank for Reconstruction and Development (EBRD) opened for business. The EBRD uses investment and influence to foster the transition of former centrally planned economies to open markets and democracies. Specifically, the EBRD was established to foster this transition by promoting private and entrepreneurial initiatives in Central and Eastern Europe and the former Soviet states that are committed to and applying the fundamental principles of multiparty democracy, pluralism, and market economies.

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From Prague to Vladivostok, from Skopje to Tallinn, there has been much progress since 1991 in the region's transition to market economies. In fact, eight countries in central Europe and the Baltic region achieved enough reform and growth to join the European Union in 2004, followed by Romania and Bulgaria which joined in January 2007. While growth rates across the EBRD region have been among the highest in the world in recent years, continued expansion, better living standards, and economic climates that attract increasing private investment are the prerequisites for sustained growth. The investment potential is vast in the region's banks and businesses, in privatizing state assets, and in improving infrastructure, such as municipal water and heating systems. The EBRD is an efficient partner that can help other financiers by identifying opportunities, sharing knowledge of the countries in the region, and co-financing sound investments.

With a network of EBRD offices in each of the borrowing countries, the bank has a distinct advantage in understanding its member countries and their challenges.

#### **EBRD Sectors and Relationships**

The sectors in which the EBRD finances projects include: agribusiness; energy efficiency; financial institutions; manufacturing; municipal and environmental infrastructure; natural resources; power and energy; property and tourism; telecommunications, information technology, and media; and transportation.

The EBRD will not provide financing for defense-related products, substances banned by international law, or stand-alone gambling facilities.

#### EBRD and the U.S. Department of Commerce

The Omnibus Trade Bill of 1988 mandates that Department of Commerce staff be located within the U.S. offices of all development banks. The U.S. Commercial Service's Advocacy Center manages the Department of

Commerce's representatives to the EBRD. These representatives provide support and assistance to U.S. firms in three primary areas:

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- Market Information and Outreach: Provide information to U.S. firms on opportunities created by EBRD projects, and advise companies on how to access them.
- Business Facilitation Services: In-depth one-on-one counseling, strategic planning, information-gathering for specific needs, contact and meeting planning, and promotional (marketing) support for qualified firms.
- Advocacy: Provide support to U.S. firms that have problems with EBRD projects, including guidance on processes, assistance with payment issues, and direct and indirect advocacy with regard to specific problems or procurement issues.

#### EBRD and U.S. Firms

The United States plays an important role in the activities of the EBRD. As well as being the bank's largest single shareholder, the United States contributes generously to the development of investment opportunities in the 29 countries where the bank operates. With \$20 billion of capital annually, the bank offers a wide range of financing mechanisms. Overall funding for each year generates hundreds of contracts for U.S. companies to provide a wide range of goods, equipment, services, and expertise. Individual export opportunities for U.S. firms vary from thousands of dollars to several million dollars.

#### How to Do Business with the FBRD

EBRD financing for private sector projects generally ranges from €5 million to €250 million, in the form of loans or equity investments, with the average investment being €25 million. Smaller projects may be financed through financial intermediaries or through special programs if those smaller direct investments are in less advanced countries.

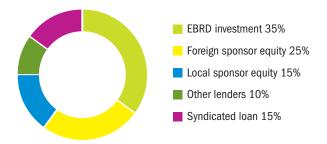
To be eligible for EBRD funding a project must:

- Be located in an EBRD country of operation.
- · Have strong commercial prospects.
- Involve significant equity contributions in-cash or in-kind from the project sponsor.
- Benefit the local economy and help develop the private sector.
- Satisfy certain banking and environmental standards.

The EBRD is normally prepared to provide, in the form of debt or equity, up to 35 percent of the capital for a single project. The sponsor, in turn,

is expected to provide at least an additional third of the project in the form of equity, with any remaining financing provided by outside sources. The terms will primarily reflect the commercial and country risks, although the latter is mitigated by the EBRD's status as a preferred creditor. The bank's financing may take the form of limited recourse (to the sponsors), senior or subordinated debt, equity, or guarantees. All projects financed by the bank must be commercially viable and must be able to generate cash flow sufficient to service the debt.

#### Typical capitalization structure



#### Financing and Risk Management

The EBRD provides access to competitive funding for U.S. firms seeking contracts and concessions in developing countries and emerging markets. In addition, the ability of the EBRD liaison office to help U.S. firms work with export credit agencies and multilateral institutions, and to provide guidance on matters related to risk mitigation, structuring large projects, securing government-backed loans, guarantees and insurance, is central to its mission. The EBRD uses donor funding to assist project preparation and spark foreign investment.

#### Client Risk Management

The bank also provides advice and structuring expertise on all derivative/capital market related matters to the banking division and its clients. The Client Risk Management unit of the bank assesses the financial risks on the bank's loan and equity projects, and provides specific hedging/risk mitigation solutions. It actively promotes local currency financing for clients and is involved in the establishment of new banking products.

#### Proposing a Private-Sector Project

Private-sector projects are generally brought to the bank by the borrower or a joint venture. A company with a project in mind is advised to write a thorough and complete business plan, which is submitted to the bank as a first step in applying for bank funds. The proposal should include a

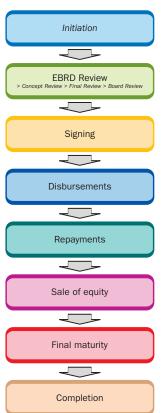
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description of the project and the main parties to the transaction. It is important to note that the responsibility for project preparation rests with the borrower, not the bank. However, the EBRD will work closely with borrowers to ensure their proposal meets the bank's standards. Thus, after becoming familiar with the EBRD's criteria and mandate, and after preparing a preliminary draft, it is advisable to consult with the bank staff. The first step, however, should be to contact the Advocacy Center's EBRD office.

#### The Project Cycle

If, after reviewing the proposal, the EBRD is interested, a deal typically takes three to six months from initial contact to signing. In some cases, however, the time period may be shorter. The total project cycle from initiation to repayment can range from one year, for working capital or trade projects, to 15 years, for long-term sovereign infrastructure projects.

The EBRD project cycle consists of the following stages:



Concept Review – The EBRD's Operations Committee approves the project concept and overall structure, including proposed financing structure and supporting obligations. At this stage, the EBRD and the client sign a mandate letter, which outlines the project plan, development expenses, and responsibilities.

Final Review — Once the basic business deal (including a signed term sheet) has been negotiated and all investigations have been substantially completed, the project receives a final review by the Operations Committee.

**Board Review** – The EBRD president and operation team present the project to the board of directors for approval.

Signing – The EBRD and the client sign the deal and it becomes legally binding.

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**Disbursements** – Once repayment conditions are agreed upon, and the bank's conditions are met, the funds are transferred from the bank's account to the client's account.

**Repayments** – The client repays the loan amount to the EBRD under the agreed-upon schedule.

Sale of equity – The bank sells its equity investments on a non-recourse basis.

Final maturity – The final outstanding loan amount is paid to the bank.

Completion – The loan has been fully repaid and/or the EBRD's equity investment divested.

#### The Procurement Process

The EBRD's financing activities generate many opportunities for suppliers, contractors, and consultants worldwide. The EBRD's procurement policies and rules are based on the fundamental principles of non-discrimination, fairness, and transparency. They are designed to promote efficiency and effectiveness and minimize risk in the implementation of the bank's lending and investment operations.

- Procurement for state sector projects is normally carried out through open, competitive tendering. Only in exceptional circumstances are other procurement methods considered. Open tendering ensures equal opportunities for all interested bidders, irrespective of their country of origin.
- For private-sector projects, the client company or project sponsor is responsible for the procurement. However, the bank will satisfy itself that private-sector clients use appropriate procurement methods.
- Procurement information is available on the EBRD's Web site, www.ebrd.com, and is also available from the U.S. Commercial Service's liaison office, www.buyusa.gov/ebrd.

As well as securing the efficiency of the bank's own projects, the implementation of projects based on EBRD's procurement policies and rules promotes:

- The development, on a national level, of public procurement systems based on principles and procedures of the highest international standards:
- The participation by foreign enterprises in EBRD-financed projects and greater involvement by the international business community in the bank's countries of operations; and
- The introduction of innovative solutions based on a strong privatesector involvement in the provision of public services.

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Borrowers signed a total of 122 public sector contracts in 2005, valued at €615.6 million, for which the bank provided €487.1 million in loans.

#### The Procurement Process

The borrower prepares the specifications and tender documents; determines the procurement schedules; publishes the notices; evaluates the bids; and awards and administers the contract.

Upon receiving an evaluation report from the borrower detailing the selection process and the award candidate, the EBRD either approves or rejects the recommendation depending on whether applicable procurement rules were followed.

#### Special Rules for Public-Sector Procurements

With the exception of consulting contracts, all public-sector borrowers must follow open tendering procedures for the award of contracts for goods and services, if the value of those contracts meet or exceed €200,000 for services, or €5 million for goods.

The normal process for public sector procurement involves the following steps:

- 1. Notification
- 2. Prequalification
- 3. Invitation to tender
- 4. Receipt and evaluation of tenders
- 5. Award of contract
- 6. Administration of contract

Once the bank has approved the procurement plan, and as early in the project cycle as possible, the borrower must issue an internationally advertised General Procurement Notice. This notice must be published in a newspaper with wide circulation in the borrower's country and in official gazettes and international trade publications. In addition, the bank publishes the notice on its Web site and arranges for its publication in *United Nations Development Business*.

#### **Tips for Winning Procurement Opportunities**

- Regularly access "Procurement Opportunities" on the EBRD's Web site or by joining the U.S. Commercial Service's e-alerts.
- Monitor project development through each stage of the project cycle.
- Learn as much as you can about the borrower or executing agency.



- Provide the borrower/executing agency with information about your company, product, or service.
- If possible, travel to the country of operation and make direct contacts with relevant officials.
- Respond promptly, and as instructed, to invitations for expressions of interest.
- Obtain the tender documents as soon as possible.
- Make sure your tender is priced competitively and complies with all specifications and contractual conditions stipulated in the documents.
   Ensure that all required bonds, guarantees, or deposits are posted for each contract bid.
- If possible, attend the tender opening to learn about your competitors' pricing.
- Keep in mind that for goods procurement, the lowest evaluated (that is, technically compliant) bidder will win the contract. Offering more than is asked for at a higher price is not usually a winning strategy.
- Immediately contact the Commercial Service's liaison office as developments warrant.

#### **Consultants**

There are two types of EBRD consultancy projects: consultancies for the bank itself, and consultancies for EBRD clients in Central and Eastern Europe, Russia, Commonwealth of Independent States, and Central Asia. On average, about 75 percent of EBRD consultancy projects are in the private sector and 25 percent in the public sector, although in some sectors the proportion of public-sector projects is higher.

EBRD consultancy assignments can be funded from the following sources:

- The EBRD's own budget (for example, projects for the bank itself);
- The EBRD client's total project budget, which will come from a range of other sources as well as the bank; or
- Consulting services for the EBRD's client, funded by Technical Cooperation (TC) funds.

Most consultancy projects are funded from TC funds. Under the TC funds program, donor countries provide money for consultancy work linked with a specific project. This can include consultancy at any stage of the project cycle.

All consultancy contracts over  $\not$  50,000 (approximately \$65,000) are published on the EBRD's Web site at

www.ebrd.com/oppor/procure/opps/index.htm.

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There are three types of selection methodologies for consultancy assignments:

- For contracts valued at less than €50,000 (approximately \$65,000), consultants are selected directly by the EBRD borrower.
- For contracts valued between €50,000 and €200,000 (approximately \$65,000-\$265,000), the EBRD invites Expressions of Interest (EOIs) and the bank (or its client) draws up a shortlist of consultants from which to select the winner. The shortlist normally must contain a minimum of three and a maximum of six firms or individuals. Except in rare cases, the EBRD also applies a general guideline that the shortlist should contain no more than two consultants from the same country.
- For contracts valued in excess of €200,000 (approximately \$265,000), the EBRD also uses the Expression of Interest (EOI) and shortlisting procedure. However, rather than selecting a consultant directly from the shortlist, the bank (or the client) will ask each shortlisted firm to provide a more comprehensive proposal, from which it will then select the firm with the most technically qualified response.

EBRD consultancy opportunities have an average response deadline of only 10 business days from the date the EOI is published. Some projects funded by Technical Cooperation funds may have a deadline of only five working days after publication.

#### **Contact Information**

# U.S. ADVOCACY CENTER'S COMMERCIAL LIAISON OFFICE TO THE EBRD

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